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Auditing Standards Board (ASB) meeting, June 22-25, 2009, Boston, MA

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AUDITING STANDARDS BOARD (ASB) MEETING
June 22-25, 2009
Boston, MA

MEETING ATTENDANCE

ASB Members

Harold Monk, *Chair*
Sheila Birch
Jacob Cohen
Walt Conn
Tony Costantini
Charles Frasier
Nick Mastracchio
Andy Mintzer
Thomas Ratcliffe
Randy Roberts
Darrel Schubert
Tom Stemplar
Mark Taylor
Phil Wedemeyer
Stephanie Westington
Art Winstead
Megan Zietsman

Absent

Ernie Baugh
Jorge Milo (designated representative: Brian Richson)

AICPA Staff

Ahava Goldman, *Audit & Attest Standards*
Chuck Landes, *Audit & Attest Standards*
Richard Miller, *General Counsel & Trial Board*
Hiram Hasty, *Audit & Attest Standards*
Linda Delahanty, *Audit & Attest Standards*
Judith Sherinsky, *Audit & Attest Standards*
Linda Volkert, *PCPS Technical Issues Committee*

Observers and Guests

Abe Akresh, *Government Accountability Office*
Ed Bryant, *KPMG LLP*
Rob Chevalier, *KPMG LLP (6/23-25)*
Brian Croteau, *PricewaterhouseCoopers LLP*
Julie Anne Dilley, *PricewaterhouseCoopers LLP*
John Fogarty, *Deloitte & Touche LLP (6/23-25)*
Diane Hardesty, *Ernst & Young LLP*

Jan Herringer, *BDO Seidman LLP* (6/23-25)
Susan Jones, *Grant Thornton LLP* (6/22-23 only)
Jason Keen, *Deloitte & Touche LLP*
Maria Manasses, *Grant Thornton LLP*
Susan Menelaides, *McGladrey Pullen LLP*
Dan Montgomery, *Ernst & Young LLP* (6/22-23 only)
Mindy Montgomery, *Deloitte & Touche LLP* (6/24-25 only)
Tammy Mooney, *Thomson Reuters (PPC)*
John Offenbacher, *Securities and Exchange Commission*
Ciaran Ó'hÓgartaigh, *University College, Dublin, Ireland* (6/24 only)
Brenda Porter, *Exeter University, United Kingdom* (6/24 only)
George Rippey (6/22 only)
Brian Richson, *PricewaterhouseCoopers LLP* (6/23-25)
Monica Tesi, *KPMG LLP*
Gail Vallieres, *Government Accountability Office*

AGENDA ITEMS PRESENTED AT MEETING

Chair's Report

Mr. Monk reviewed recommendations of the AITF regarding:

- Early implementation of clarified SASs, and
- Changes to the ASB's Operating Policies.

The ASB agreed unanimously to adopt the policy regarding implementation of the clarified SASs, and to make the changes to the ASB Operating Policies, as recommended by the AITF.

The ASB approved unanimously the highlights of April 27-30, 2009 meeting.

Mr. Landes reported on the activities of the IAASB at its June meeting.

1. Compliance Audits

Mr. Rippey, chair of the Compliance Auditing Task Force, lead the ASB in a discussion of significant comments received during exposure of a proposed SAS entitled *Compliance Audits* and a revised draft of the proposed SAS. The ASB recommended that the following changes be made to the proposed SAS.

- In the third bullet of paragraph 1, change “the auditor” to “an auditor” because the governmental audit requirement is imposed on the entity being audited, not the specific auditor engaged.
- Revise the definitions of the terms *audit risk of noncompliance*, *control risk of noncompliance*, *detection risk of noncompliance*, and *inherent risk of noncompliance*, to conform with the definitions in the exposure draft of the proposed SAS, *Overall*

Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Generally Accepted Auditing Standards.

- Retain the phrase, “using professional judgment” in paragraph 12.
- In paragraph 15, insert the phrase “applicable compliance requirements” after the word “programs” to mirror the language in paragraph 14.
- Revise paragraph 19 by
 - deleting the word “or” and inserting the words “which may include tests of” before the word “transactions.”
 - adding a sentence at the end of the paragraph stating, “Risk assessment procedures, tests of controls, and analytical procedures alone are not sufficient to address the risks of material noncompliance.”
- Delete from paragraph 20 the requirement to refer to the guidance in paragraphs .07–.39 and .46–.67 of AU section 318, Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained. Move this material to an application paragraph.
- In paragraph 24, replace the words “that may affect the” with the words “related to the entity’s compliance during the period covered by the.”
- At the end of the lead-in of paragraph 25, add the words “and considering” to indicate that in addition to inquiring the auditor also should consider the response to the inquiry.
- Delete the words “by the auditor” in the last bullet of paragraph 25 so that the scope of the professional engagements covered by the inquiry is not limited to engagements performed by the auditor.
- Revise paragraph 26 to state,

The auditor has no obligation to perform any audit procedures related to the entity’s compliance during the period subsequent to after the date of the period covered by the auditor’s report. However, if before the report release date, the auditor becomes aware of noncompliance in the period subsequent to the period covered by a subsequently discovered fact becomes known to the auditor’s before the report release date, the auditor should discuss the matter with management and, where appropriate, with those charged with governance, and determine whether the noncompliance that is of such a nature and significance that its disclosure is needed to prevent report users from being misled, the auditor should discuss the matter with management and, if appropriate those charged with governance and . If the auditor concludes that it should be disclosed, the auditor should include an explanatory paragraph in his or her report describing the nature of the noncompliance. (Ref: par. A29)

- Delete paragraph 29 and include its contents as a bullet in paragraph 34, changing “discloses” to “identifies.”
- Delete the words “as well as other matters” in paragraph 33 to avoid suggesting that the auditor is required to report matters beyond the scope of the engagement.
- Move the content of bullet 34b to a separate requirement paragraph.
- Change “required” to “performed” throughout paragraph 42 because the auditor may not be required to perform additional procedures.

- Add a sentence at the end of paragraph 42 or an application paragraph stating, “An example of an auditor prepared document required by a governmental audit requirement and incorporated by reference into the auditor’s report is the schedule of findings and questioned costs in a compliance audit under OMB Circular A-133.”
- Determine whether the reference to an audit guide in paragraph A20 is appropriate by discussing this issue with the Audit Issues Task Force. If the reference remains, delete the reference to Chapter 10.
- Delete paragraph A21
- Insert an application paragraph that provides examples of tests of details in a compliance audit
- Revise the language in paragraph A24 on “rotating tests of controls” to conform to the language in paragraphs .40–.45 of AU sec. 318
- Elevate paragraph A27, which addresses written representations, from application material to a requirement. Conform the set-up of that paragraph to paragraphs 10–20 of the proposed SAS, Written Representations.
- Consider adding an application paragraph that states, “Management’s written representations may include an introductory statement indicating that the representations are to the best of management’s knowledge and belief.”
- Clarify the difference between representations A27e and A27f
- Add an application paragraph indicating that the auditor may request representations in addition to those required by the SAS, for example additional representations related to the governmental audit requirement.
- Revise paragraph A34 to more accurately describe the GAGAS requirement for the auditor to obtain a written response to his or her communication regarding significant deficiencies or material weaknesses in internal control over compliance,
- Delete the words “also wish to” in paragraph A35.
- Delete the words “be required to” in paragraph A37.
- Add an application paragraph that provides an example of an auditor-prepared document required by the governmental audit requirement that is incorporated by reference in the auditor’s report (e.g., the schedule of findings and questioned costs)
- Make certain editorial changes to paragraphs A16, A27f, A5, A3

2. Engagement Representations

Mr. Fogarty, chair of the Engagement Representations Task Force, led a discussion of the proposed SASs *Terms of Engagements* and *Written Representations*.

Terms of Engagement

With regard to the issues presented, the ASB

- directed the Task Force to include the requirement and related application material in ISA 210 to assess whether existing agreement needs revision to require engagement letter every year (that is, permit “evergreen letters”), and agreed to include reference to the “inherent limitations of an audit” in the engagement letter.

- agreed that the option of using the wording of law or regulation to describe management's responsibilities is not necessary in the U.S.
- directed the Task Force to consider whether proposed SAS *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks* contains the requirements regarding *Regulatory or Contractual Basis of Accounting—Other Matters Affecting Acceptance* and accordingly, whether those paragraphs can be omitted from this proposed SAS.
- agreed with the description of management's responsibility for internal control in the proposed SAS.
- agreed with the conforming amendment to proposed SAS *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*
- agreed with the inclusion of requirements and application material related to initial audits and reaudits from extant AU section 315.03-.10.

The ASB also directed the Task Force to

- consider including paragraph A1 from the ISA
- add application material to the requirement to not accept engagements when management imposes a scope limitation that would result in a disclaimer, to distinguish this from a qualification and to address certain regulatory situations.
- clarify the purpose of rewording the auditor's report prescribed by law or regulation in paragraph 20.
- indicate that the sources of established accounting principles in the U.S. included in paragraph A8 is a complete list
- since all applicable financial reporting frameworks in the U.S. are fair presentation frameworks, delete references to fair presentation.
- clarify the distinction between drafting and preparing the financial statements in paragraph A10.
- add application material from extant AU 333.11 to paragraph A22.

Written Representations

With regard to the issues presented, the ASB

- reconfirmed its agreement to include the requirements for written representations expected on every engagement in this proposed SAS.
- requested the AITF discuss whether to allow the representation letter to be dated *as of* the date of the auditor's report with oral representation obtained by the report date that it will be signed but, consistent with TIS 9100.06, be physically provided to the auditor after the report date but before the release date.
- directed the Task Force to retain the exhibit of *Illustrative Specific Written Representations*.

The ASB also directed the Task Force to

- make certain editorial changes to various paragraphs.
- add "or withdrawing from the engagement" to paragraphs 25 and 27.

- add an application paragraph (A7) containing the material included in extant AU 333.11d-e.
- replace the application material in paragraph A22 with the material in extant AU 333.08.
- revert to the ISA wording in paragraph A33.

3. Service Organizations

Mr. Conn, Chair of the Service Organizations Task Force, led the ASB in a discussion of comments on the exposure draft (ED) of the proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at a Service Organization*, and issues related to a revised draft of the proposed SSAE. The ASB is converging the proposed SSAE with proposed International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*. The ASB:

- Agreed that the proposed SSAE should not be applicable when reporting on controls other than controls related to financial reporting.
- Agreed with the deletion of
 - paragraph 32, which requires the service auditor to obtain information for use in identifying risks that the description is not fairly stated or control objectives were not achieved due to intentional acts by service organization personnel, as well as the related application paragraphs, A15–A19.
 - the requirement in paragraph 40 for the service auditor to consider whether deviations are the result of intentional acts, and
 - the phrase “whether due to fraud or error” in the illustrative reports.
- Agreed with the addition of paragraphs 39 and A41 to clarify the auditor’s responsibility when he or she becomes aware of an intentional act.
- Directed the task force to revise paragraph 39 to require the service auditor to give substantive thought to the nature and cause of any deviations identified as a result of performing the procedures in paragraph 38, by either
 - reinstating the deleted words in the lead-in of paragraph 40 of the ED, or
 - inserting the phrase “as a result of performing the procedures in paragraph 38” after the word “if.”
- Directed the task force to draft an application paragraph linked to new paragraph 33a stating that the risks and control objectives encompass intentional and unintentional acts that threaten the achievement of the control objectives.
- Agreed that the requirement for management to provide an assertion should be retained.
- Agreed with the addition of new paragraphs A10 and A11 to clarify the level of documentation needed to provide support for management’s assertion.
- Agreed that the SSAE should not be applicable to situations in which a service organization operates controls that are designed or selected by a single user entity (one-to-one situations) and with the related guidance in paragraph A1.

- Agreed with the addition of paragraphs A20-A22 which provides guidance on the extent to which the service auditor may use the work of the internal audit function and the service's auditor's related responsibilities.
- Directed the task force to discuss with the IAASB Service Organizations Task Force the topic of whether reference should be made to internal audit in the service auditor's report
- Agreed that the requirement to document the service auditor's conclusions regarding the adequacy of the work of the internal audit function and the service auditor's procedures with respect to that work may be included in the proposed SSAE (par. 50) even though AU section 322, *The Auditor's Consideration of the Work of the Internal Audit Function in an Audit of Financial Statements*, does not currently contain that requirement.
- Agreed that the effective date of the SSAE should coincide with the effective date of ISAE 3402, to ensure consistency in reporting across multiple jurisdictions. The SSAE will most likely be issued prior to the related proposed Statement on Auditing Standards (SAS), *Audit Considerations Relating to an Entity Using a Service Organization*, as well as the other clarified SASs.
- Agreed with the conclusions in new paragraphs .46 and .47 regarding the service auditor's responsibilities with respect to subsequent events. Paragraph 47 requires the service auditor to adapt and apply the guidance in AU sec 561, *Subsequent Discovery of Facts Existing at the Date of the Auditor's Report*, if he or she becomes aware, after the report release date, of conditions that existed at the report date that might have affected the service auditor's report. Proposed ISAE 3402 does not include this requirement.
- Agreed with the task force conclusion that a service auditor's report should continue to contain the following sentence, "This report is not intended to be and should not be used by anyone other than these specified parties."
- Agreed with the addition of paragraphs A50, A51, and A52 to address matters relating to restricting the use of a service auditor's report.
- Agreed to exclude the requirement that the service auditor's description of tests of controls identify the period to which the tested items relate.
- Directed the task force to consider whether the paragraphs on using the work of a specialist should be deleted from the proposed SSAE, in conformity with this recent change to the ISAE.

The task force will present a revised draft of the proposed SSAE at the ASB's August 2009 meeting.

4. Estimates/Fair Values

Ms. Zietsman, chair of the Accounting Estimates Task Force (the Task Force), led the discussion of a proposed SAS, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*. The objective of the presentation was to discuss a draft document of this proposed SAS and ask the ASB to vote to ballot the proposed SAS for exposure. The draft document was previously discussed with the ASB at its April and

January 2009 meetings. The proposed SAS has been revised to reflect the comment received from the ASB.

The following are the highlights of the significant matters discussed.

- Disposition of AU 332—Ms. Zietsman stated that in prior meetings the ASB had discussed the issue of the disposition of AU section 332, *Auditing Derivatives* and decided to rescind AU section 332 because most of the requirements in the section were redundant with other standards. Other requirements in AU section 332 appeared to be too granular and specific to the subject matter and not consistent with the ASB's strategy of writing the standards in a principles based manner. The ASB previously decided to move this specific content and any other application material deemed essential to the Audit Guide, *Auditing Accounting Estimates, Including Fair Value Accounting Estimates and Related Disclosures*. However, a board member raised a concern about the decisions reached by the ASB. A member explained that experts in the financial services industry expressed a strong view that the content in AU 332 is helpful to practitioners in that industry. Another member expressed concern about moving the content to an audit guide, which may leave a window without ASB guidance or standard. Another member cautioned that the rescission of AU 332 may give the impression that the subject of derivatives is not that important. Mr. Fogarty added that the IAASB will debate the authority of the IAPS and application guidance at its September 2009 meeting. The outcome of that debate may solve the reluctance to move AU section 332 to an audit guide. After discussion, the ASB directed the Task Force to perform further analysis of AU section 332 to identify those requirements and related guidance that warrant retention in a stand alone SAS and move that content to the proposed *Audit Evidence—Specific Considerations for Selected Items*.
- Retrospective Review of Accounting Estimates—Ms. Zietsman explained that in the prior meeting a concern was raised about the requirement in paragraph 9 to perform a retrospective review of all accounting estimates. She explained that paragraph 9 provides essential guidance to the auditor about the nature and extent of the auditor's review and taken together with the requirement in the first sentence, would allow the auditor to use judgment in performing these procedures. The Task Force agreed with the ASB to add additional application (see paragraph A45) to explain that the auditor's procedures in this regard is a matter for professional judgment.
- Ms. Zietsman further explained that subsequent to the April meeting, a board member proposed a different change to the proposed SAS that would combine paragraph 9 with the requirement in paragraph 32b of the proposed SAS *Consideration of Fraud in a Financial Statement Audit*. She explained that the Task Force's view that the requirement in the two standards are different. This is consistent with the IAAB's view on this point. After discussion, the ASB agreed that the two requirements are different and no further changes were necessary.
- Communications with Those Charged With Governance—Ms. Zietsman explained that the draft of the proposed SAS includes a requirement and related application guidance to communicate to those charged with governance about the entity's process to formulate sensitive accounting estimates, including fair value estimates. The Task Force views this requirement as incremental to the requirement in AU section 380, *Communication With Those Charged With Governance*, and it would be helpful to auditors as a reminder of

their responsibilities to communicate with those charged with governance about accounting estimates. After discussion, the ASB agreed that the requirement would be useful to auditors; however, the requirement would be better placed in AU section 380 which would contain all of the requirements and guidance about communications with those charged with governance. The ASB agreed to make a conforming change to AU 380 to move this requirement and add an application guidance paragraph in this proposed SAS to refer auditors to AU section 380.

- Review of proposed SAS—Ms. Zietsman reviewed the proposed SAS with the ASB. The ASB decided to reinstate the Appendix which lists examples of accounting estimates. Other than the conforming change to AU section 380 discussed above, the other changes made by the ASB were editorial.

The ASB voted unanimously to ballot the proposed SAS for exposure.

5. Auditor's Reports – 700 Series

Mr. Montgomery, Chair of the Auditor's Report Task Force, led a discussion of the materials for Agenda Item 5 that contained the following proposed SASs:

- *Forming an Opinion and Reporting on Financial Statements*
- *Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements*

Forming an Opinion and Reporting on Financial Statements

As a result of the discussion of the proposed SAS *Forming an Opinion and Reporting on Financial Statements*, the following changes were made to the proposed SAS:

- Paragraph 2 was modified to eliminate the references to use within and outside the United States.
- The words “conclusions drawn from the” were deleted from paragraph 7a to better express the objective in relation to the requirements.
- The words “if any” were deleted from paragraph 7(a).
- The word “an” was changed to “that” in paragraph 7(b) to tie the opinion back to paragraph 7a.
- Applicable footnote references were added to paragraph 11(a) and (b)
- Paragraph 14 was modified to clarify that the auditor's evaluation as to whether the financial statements achieve fair presentation are in addition to the evaluation required by paragraphs 12 and 13.
- Paragraph 38 Auditor's Address was moved before paragraph 37 Date of the Auditor's Report to reflect the ASB's preference for such order.
- Paragraph 39 was modified to clarify the auditor action required.
- Paragraph 44 was modified to better reflect the objective language in paragraph 7(a).
- Paragraph 46 was modified to clarify that the written representation relates to comparative financial statements.

- Paragraph 48 was modified to clarify when the auditor should use an “Other Matter” paragraph.
- Moved the footnote in paragraph A5 to the end of the sentence.
- Paragraph A30 was modified to reflect the wording from proposed SAS Compliance Audits.
- Illustration 1 was modified to include “and subsidiaries” and to conform the wording to the requirement in paragraph 29(c).
- Illustration 2 was modified to clarify that IFRS referenced in the illustration relates to IFRS issued by the IASB and to conform the wording to the requirement in paragraph 29(c).
- Illustration 3 was modified to conform the wording to the requirement in paragraph 29(c).
- A reference to paragraph A12 was added to paragraph A6.

The ASB unanimously voted to ballot the proposed SAS for exposure. The proposed SAS will be issued for exposure when the other proposed SASs drafted by this Task Force are exposed.

Reporting on Compliance With Aspects of Contractual Agreements or Regulatory Requirements Related to Audited Financial Statements

As a result of the discussion of the issues paper and the proposed SAS, the task force was directed to:

- Consider removing the definition of negative assurance in paragraph 7 and including a reference to the definition of negative assurance in AU section 634 Letters for Underwriters and Certain Other Requesting Parties and add application material to clarify how negative assurance is used in this proposed SAS.
- Consider modifying paragraph 10 to clarify the steps that are requirements.
- Modify paragraph 10(c) to clarify how to report if the exceptions are pervasive.
- When this report is included in the auditor’s report, clarify where in the auditor’s report the additional paragraph would be placed and whether it is an “Emphasis of Matter” or “Other Matter” paragraph.
- Consider including an illustration of when the report on compliance with aspects of contractual agreements or regulatory requirements is included in the auditor’s report.
- Reconsider illustration 3.

The proposed SAS will be brought back to the ASB at its August meeting.

6. Auditor’s Reports – Special Reports

Ms. Jones, Chair of the Special Reports Task Force led a discussion of the following proposed SASs:

- *Special Considerations – Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks*
- *Special Considerations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*

- *Engagements to Report on Summary Financial Statements.*

Special Purpose Frameworks

With regard to the issue presented in June, the Board reconfirmed its agreement to align the reporting for special purpose financial statements prepared in accordance with a regulatory basis of accounting with the extant requirements. That is, if the financial statements and auditor's report are intended for general use, a dual-opinion on GAAP and the special purpose framework would be required. Otherwise, a single opinion on the framework would be issued, along with (a) an alert that the regulatory basis is a basis other than GAAP, and (b) a report restriction for use by the specified parties.

The Board also directed the Task Force to:

- Refer to the cash, tax, and regulatory bases of accounting as being “commonly referred to” as other comprehensive bases of accounting.
- Clarify the requirement for the auditor to determine whether a relevant AU section requires “special consideration.”
- Consider the alignment of the requirements pertaining to auditor's reports prescribed by law or regulation that are contained in the proposed SAS, Compliance Audits.
- Delete paragraph A1, which essentially stated what was already in the definitions.
- Include Appendix B (the overview of the reporting requirements) prior to the illustrative reports and link the various reporting scenarios to those reports.
- Add a new illustrative report to address both regulatory bases of accounting, restricted use and general use.
- Modify Interpretation 14, which addresses the adequacy of disclosures, and include it as an Exhibit to the proposed SAS.

Single Financial Statements & Elements

With regard to the issues presented in June, the ASB agreed with the Task Force to:

- Add a new requirement and related guidance to address the auditor's responsibilities related to interrelated items.
- Modify the requirement to perform an audit of the complete financial statements when a specified element, account, or item is, or is based upon, an entity's net income or stockholders' equity or the equivalent thereof. The revised requirement should relate to the new requirement to perform procedures on interrelated items.

The Task Force was also directed to:

- Clarify the requirement not to “issue” the report on the single financial statement or specific element when the presentation of the single financial statement or of the specific element does not differentiate it sufficiently from the complete set of financial statements
- Clarify the auditor's responsibility to determine materiality in an audit of a single financial statement.

- Provide additional guidance with regard to disclosures, and highlight this matter in the Explanatory Memorandum.

Summary Financial Statements

With regard to the issues presented in June, the ASB agreed with the Task Force to:

- Allow the auditor's report on the summary financial statements to be dated later than the auditor's report on the audited financial statements, provided the auditor's report was modified to clearly indicate the auditor's responsibilities for the summary financial statements and for subsequent events. In this circumstance, the Board agreed with the additional requirements pertaining to engagement acceptance, written representations, and reporting.
- Align the proposed SAS with International Standards on Auditing and SAS 116, Interim Financial Information, by permitting the audited financial statements to be made "readily available," in lieu of requiring the audited financial statements to accompany the summary financial statements.

The Task Force was also directed to:

- Further clarify the applicability of the proposed SAS with respect to required supplementary information.
- Define the term "readily available" within the definitions.
- Elevate the guidance pertaining to the acceptability of the applied criteria.
- Clarify the requirement for management to provide written representations when agreeing the terms of the engagement.
- Remove the phrase "without undue difficulty" with regard to the requirement for the financial statements to be made "readily available."
- Clarify management's representation with regard to making the financial statements readily available.
- Align the requirement to obtain written representations as of the report date with the requirement to be included in the management representations SAS.
- Revert back to a "denial" of opinion in lieu of a "disclaimer" of opinion when the auditor issued an adverse or disclaimer of opinion on the audited financial statements.
- Clarify the auditor's responsibilities for material misstatements of fact in other information.

7. Auditor's Reports – Research

The ASB is sponsoring four teams who are performing research on auditor's report. Professor Taylor, chair of the Auditor's Reports Research Task Force, introduced the second of these teams. Professors Ciaran Ó'hÓgartaigh, University College, Dublin, Ireland, and Brenda Porter, Exeter University, United Kingdom, presented the results of their research to the ASB.

8. Overall Objectives and Proposed Preface

Mr. Fogarty, chair of the Clarity Task Force, led a discussion of Proposed Preface to the Codification of Statements on Auditing Standards, *Principles Governing an Audit Conducted in Accordance With Generally Accepted Auditing Standards*, and Proposed Statement on Auditing Standards, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance With Generally Accepted Auditing Standards*, and the changes to the proposed documents based on comments received during exposure.

The ASB recommended that the following changes be made to the proposed documents:

- Preface Change “Governing” to “Underlying” and other editorial changes to introductory paragraphs.
- Principle 3 Delete “including those pertaining to independence and due care” as the ASB believes “relevant ethical requirements” is sufficiently robust.
- Principle 7 Change “conclusions drawn from” to “evaluation of” to be more precise. Add sentence describing what the opinion states.
- Par. 5 Delete last sentence. Delete “However” as not necessary since it is stated above that reasonable assurance is not absolute.
- Par. 6 Add “as a whole” after “financial statements”.
- Par. 12 Delete “(or resign)” and related footnote
- 14, A19 Delete “including those related to independence” as ” as the ASB believes “relevant ethical requirements” is sufficiently robust. Change “GAAS” to “each AU section”.
- A5 Revise to eliminate reference to “specific users.
- A8 Delete first sentence as in the US all applicable financial reporting frameworks are fair presentation.
- A12 Remove reference to entities that receive government awards from heading and in text, and add sentence that “For purposes of GAAS, governmental entities include entities that receive governmental awards and are thus subject to the same considerations.”
- A16, A18 Delete as unnecessary.
- A32 Add “unfamiliar” to be consistent with QC standards.
- A52, A55 Changed “at a reasonable cost” to wording describing “balance between benefit and cost” because what is reasonable is subjective.
- A64 Add reference to PCAOB standards, which are relevant in the U.S.
- A67 Editorial change to eliminate repetition and better use of terms.
- A72 Delete example in a as it is unclear
- Editorial changes to various paragraphs

The ASB expressed willingness, subject to seeing the changes suggested by the ASB at this meeting, to vote the proposed documents for issuance as final standards. The documents will be brought back to the ASB in August.

9. Audit Evidence – Selected Items

Mr. Winstead led the discussion of the proposed SAS *Audit Evidence—Specific Considerations for Selected Items*. The objective of the presentation was to discuss the draft document of this proposed SAS.

With regard to the issues presented in June, the ASB agreed with the Task Force to:

- Rescind AU section 901, *Public Warehouses* because the content in that section is covered in other standards and the issues are not a major practice issue.
- Add the content of interpretation AU 9508 *Taking Firm as an Alternative Procedure for Observing Inventories* as application in this proposed SAS as suggested by the Auditor's Report Task Force.
- Retain content related to segment information. The statement in the cover memo that this content is not relevant in the U.S. is not accurate because governmental entities have segment reporting responsibilities.
- Retain the content of AU section 337 that addresses the ABA treaty in the U.S.

In addition, the ASB discussed the requirement in paragraph 11 of the proposed SAS which would allow auditors to perform alternative procedures if an attorney letter is not received. Under extant AU 337, this situation would be a scope limitation. The ASB questioned what the alternatives procedures are contemplated under this requirement, and how practicable alternative procedures could be given that attorneys are the only party privy to all of the communications pertaining to the legal matters of the entity. Other parties do not have access to such privy information. The ASB raised the concern that this requirement would have the unintended consequence of prompting attorneys not to reply to the attorney letter request because auditors would have other ways to obtain the audit evidence. The ASB concluded that if, based on the risk assessment procedures, the auditor decides to request an attorney letter confirmation then the auditor is required to follow up on the request. The proposed SAS will be revised to strengthen this point.

The Task Force was also directed to:

- Paragraph 3—Compare the objective to those of other proposed SAS with similar constructions (for example, Estimates, Group Audit and Fraud). A board member raised the issue that the objective of the proposed SAS does not address all of the assertions in auditing inventories. It was noted that this standard is not intended to provide all of the guidance necessary to audit inventories; but rather focuses on a specific area. This is similar to the proposed SAS *The Confirmation Process*.
- Paragraph 10—consistent with the proposed SAS, *The Confirmation Process*, include a presumption that litigation, claims or assessments are assessed as having a high risk of material misstatement, to address a concern that the requirement as drafted may have the unintended consequence of permitting auditors to rationalize not requesting attorney letters.
- Paragraph A21—Move from application material to the related requirement the factors relevant in obtaining audit evidence about litigation, claims and assessment. The factors enumerated in paragraph A21 may be summarized when moved to the requirement.

- Paragraph A22—Delete the sub bullet which addresses management representations, which is addressed in the proposed SAS *Management Representations*, and to consider adding representations to address situations when management refuses to provide information to the auditor on the basis of client privilege.
- Paragraph A29—Look into the term “general inquiry.” In the U.S., attorney letters are a specific inquiry.
- Paragraph A33—Link this guidance to the risk assessment standards which include an overarching requirement for the auditor to consider changes in audit evidence, to address the issue that this paragraph changes to application guidance the requirement in extant paragraph 11 of the auditor to investigate the reasons for an entity changed attorneys or why an attorney resigned.
- Look at the interpretations and determine the content that could be brought into the standard (specifically paragraphs 15-17 of AU 337).
- Consider retaining paragraph A23 of ISA 501 because the content could be relevant in the U.S.

The meeting adjourned at 12:40pm.